

INFORMED BUDGETEER

THE CURRENT LEVEL REPORT

- “Current level” represents the estimated revenue and direct spending effects of all legislation that Congress has enacted. The Congressional Budget Office issues periodic “current level” reports (about every two weeks when the Senate is in session) which compare the budget effects of enacted legislation to the targets and ceilings set in the Budget Resolution.
- The current level report is the basis for points of order in the Senate under Section 311 of the Budget Act.
- The first report for the first session of the 105th Congress shows that current level for 1998 on-budget outlays is \$144.4 billion under the Budget Resolution ceiling. This is due to the failure to enact all appropriations bills on time.
- Current level non- social security revenues are \$1.6 billion under the Budget Resolution floor for 1998, and \$2.6 billion above the resolution floor for 1998-2002.
- The figures in the Budget Resolution column are \$4.1 billion in BA and \$0.3 billion in outlays higher than the totals printed in the Budget Resolution Conference Report. The Resolution numbers have been adjusted upward as required by the BBA, to accommodate appropriations for the new IMF arrangements to borrow and pay arrearages for international organizations, international peace keeping and multilateral development banks.

FY 1998 CURRENT LEVEL REPORT			
(In billions of dollars)			
	Budget Resolution H.Con.Res.84	Current Level	Level Over/under Resolution
On-Budget			
Budget Authority	1,390.8	1,095.4	-295.4
Outlays	1,372.3	1,228.0	-144.4
Revenues:			
1998	1,199.0	1,197.4	-1.6
1998-2002	6,477.7	6,480.3	2.6
Deficit	173.3	30.6	-142.7
Debt Subject to Limit	5,593.5	5,301.5	-292.0
Off-Budget			
Social Security Outlays:			
1998	317.6	317.6	0.0
1998-2002	1,722.4	1,722.4	0.0
Social Security Revenues			
1998	402.8	402.7	-0.1
1998-2002	2,212.1	2,212.1	*

SOURCE: CBO, September 26, 1997; *Less than \$50 Million.

MEASURING UP THE HOUSE AND SENATE ISTEA BILLS

- The Senate has begun work on its version of ISTEA. S.1173 as reported by the Environment and Public Works Committee on October 1, was scored by CBO as having exceeded its allocation of contract authority by approximately \$2 billion over the next five years. This was due to language problems with the Minimum Guarantee program, the Woodrow Wilson Bridge, and the creation of a new infrastructure finance and innovation credit program.
- As followers of the Senate know, ISTEA has been drawn into the debate over campaign finance reform, and because of this, its action has been slowed for now. But the *Bulletin* is pleased to report that before these unanticipated events took place, Senator Chafee offered a Committee substitute with two amendments that were adopted. This action corrected the Budget Act problems with S.1173.
- Congratulations to the Environment and Public Works Committee for keeping our promise to pass a bill within the Balanced Budget Agreement!
- Below are shown the five year levels for both the House and Senate versions of ISTEA. Because the House bill is only a six month bill,

figures shown are CBO estimates for the remainder of the reauthorization period.

Senate & House ISTEA Highway Direct Spending (\$ In Billions)					
	1998	1999	2000	2001	2002
Senate Bill ¹ :					
BA	24.6	23.1	23.6	24.1	24.6
OT	2.1	1.6	1.3	1.1	1.0
House Bill:					
BA	24.6	24.6	24.6	24.6	24.6
OT	2.1	1.6	1.3	1.1	1.0

¹SBC Estimates; numbers shown above do not include highway safety, and mass transit funding. These activities are not in the jurisdiction of the Senate Environment and Public Works Committee.

HOW DO I BREAK INTO THAT LOCK-BOX?

- On August 6, the President canceled two of the “limited tax benefits” that the Joint Tax Committee identified in the Taxpayer Relief Act of 1997. The first limited tax benefit granted an exemption of active financing income from foreign personal holding income and the other provided a deferral of gain on the sale of stock in agricultural processors to certain farmers’ cooperatives. The President’s cancellations reduced the deficit by \$415 million over the next five years.
- Under the Line Item Veto Act, the savings from the President’s cancellations are devoted to deficit reduction via a “lock-box”. The lock-box requires legislation that modifies the President’s item vetoes to be offset or it will violate the Budget Act and Gramm-Rudman.
- On October 9, the House Ways and Means reported H.R. 2513, a bill that would modify the two tax provisions in the Taxpayer Relief Act of 1997 that the President canceled using his authority under the Line Item Veto Act. According to CBO, H.R. 2513 would reduce revenues by \$15 million in 1998 and \$72 million over the next five years.
- H.R. 2513 includes a provision exempting the bill from the pay-as-you-go requirement in Gramm-Rudman. Because the bill contains this “directed scoring” language and would lead to a loss of receipts, it is subject to two Budget Act points of order in the Senate. If the bill became law in its current form, however, no sequester would occur and Congress will have removed \$72 million from the Item Veto’s deficit reduction lock-box.

ECONOMICS

THE BIG HITTERS IN THE EU

- It is interesting to note that the 15 European Union (EU) nations play a larger role in the world economy than does the US, in terms of population and share of GDP and world trade. While European Monetary Union (EMU) will likely comprise only 11 EU nations initially, most of the remaining EU nations could join EMU shortly after its inception in 1999.
- Given EMU’s likely size, its evolution will clearly have large bearing on the global economy, suggesting that all nations should pay close attention.
- One area of particular interest for the US should be EMU’s potential impact on the composition of global portfolios. At present, the US dollar’s share of central bank reserves and private global investments is well in excess of its share of global GDP or trade. If EMU is deemed to be credible and portfolios are re-adjusted in the Euro’s favor, the Institute for International Economics estimates that \$475-\$950 billion could be shifted from dollars to euros. All other things equal, this could raise US borrowing costs.

EU-15’S PLACE IN THE WORLD

	U S	Japan	EU
Population (Million -1995)	263	125	370
Share of OECD GDP (% -1996)	32.5%	20.5%	38.3%
Share of World trade (%- 1996)	19.6%	10.5%	20.9%
Export GDP ratio (%-1996)	8.2%	9.0%	10.2%
Foreign Exchange Reserve (billion- 1996)	\$49.1	\$172.4	\$349.8

A NEW ECONOMIC PARADIGM?

- There has been considerable debate recently as to whether the US has entered a new phase where strong growth and low inflation are perpetually compatible, given technological advances, increased globalization and de-regulation.
- Federal Reserve Chairman Greenspan downplayed this view in recent Congressional testimony. He argued that while such factors have helped the US economy, their effects are phased in gradually and thus they can not fully explain the recent growth surge. Instead, it appears that many temporary or technical factors have played a notable role in keeping inflation subdued despite robust growth.
- CPI has been held back by several factors. The dollar’s appreciation over the last two years may have shaved up to 0.5 percent from CPI. It is hard to imagine the dollar repeating this past year’s 12 percent trade-weighted appreciation going forward.
- Additionally, falling computer prices and decelerating medical prices have also restrained CPI, yet it is questionable how much longer these trends can persist. Lastly, BLS’ technical CPI changes have reduced CPI by roughly 0.3 percentage points since 1995. Since the CPI series is not revised, these changes will make today’s CPI seem artificially low on a historical basis.
- Wage inflation has also been held back by special factors. For much of 1997, the labor force grew at a robust 2 percent pace, as more unemployed and discouraged workers entered the labor force. However, the pool of ready & available labor has now dwindled, which warns of possible bidding up of wages and greater inflation risks ahead.
- Wages have also been held back by feelings of worker insecurity. However, one index of worker confidence -- the ratio of the voluntarily unemployed to total unemployed -- rose to a 7 year high in August, before falling back slightly in September. As worker insecurity fades, this too warns of a possible increase in inflation going forward.
- One shouldn’t belittle the impact that technology, globalization and de-regulation are playing in the economy. Yet, these factors can not fully explain the current environment of strong growth and low inflation. Instead, much of today’s low inflation seems due to temporary factors. This suggests that today’s “Goldilocks” economy could be quite vulnerable, should we not remain vigilant on inflation. Given the sensitivity of our deficit forecasts to any change in economic outlook, we should be very careful about extrapolating today’s rosy economic environment through the budget window.

BUDGET QUIZ

Question: Europe is driving toward a single currency. When did the United States establish its own single currency?

Answer: Almost 100 years after the ratification of the Constitution of the United States in 1788.

- Historians may debate the fine points, as an example, do we consider the “Continental Currency” issued in 1777 by the fledgling Continental Congress to fight the war against Britain to be the first single currency? Or do we consider the first silver dollars minted in 1794 the country’s single currency (even though the Spanish silver dollar was also considered legal tender at this time)?
- Probably the closest answer to when the United States began its

single currency, was with President Abraham Lincoln’s authorization in 1862 and 1863 of \$450 million in “greenbacks” once again to fund a military conflict. The greenbacks were backed by a promise to redeem them for hard currency -- gold and silver. While the greenbacks’ value fluctuated widely, **by 1879 the government had recovered from the Civil War and had built up enough gold reserves to honor the redemption of all greenbacks.** However, historians tell us that once the people saw the government willing to stand behind the currency, few wanted the inconvenience of dealing in gold and thus the “single US currency” became a reality.

CALENDAR

SBC FALL SCHEDULE:

October 16: **Open staff briefing:** EMU with Werner Schule, Counselor for Economic Affairs. Dirksen 608; 3:00 pm.

October 17: **Open staff briefing:** European Pension Programs, Estelle James, Lead Economist, Development Research Group, The World Bank. Researchers from the International Monetary Fund. Dirksen 608; 10 am.

October 21: **Committee Public Meeting- EMU:** Impact of EMU on US Economy. Witnesses include: Deputy Treasury Secretary Summers, C. Randall Henning of the Institute for International Economics (IIE) and Giovanni Ravasio, Director-General, DGII of the European Commission. Dirksen 608; 10:00 am.

October 23: **Committee Hearing- Pensions:** Europe’s Long-Term Fiscal Challenge (Pensions): Lessons for the US. Witnesses include: Koen De Ryck, President, Pragma Consulting, Brussels and Richard Disney, Institute for Fiscal Studies, London. Dirksen 608; 10:00 am.

October 28: **Education Task Force Hearings:** Witnesses include Secretary of Education, Richard W. Riley, former Secretary of Education and current Co-Director of Empower America, William J. Bennet, and Pascal Forgione, Commissioner of the National Center on Education Statistics. Dirksen 608; 2:00 pm.

October 29: **Committee Hearing- NATO/EMU Costs:** NATO expansion policy and the implications of European Economic Union for US NATO expansion policy and for "burden sharing" among NATO partners. Witnesses include former Secretary of State and Secretary of the Treasury James Baker and Susan Eisenhower, Chairman of the Center for Political and Strategic Studies. Dirksen 608; 10:00 am.

October 30: **Social Security Task Force Hearing:** Dirksen 608; 10:00 am.

October 30: **International Affairs Task Force Meeting:** Dirksen 608; 2:00 pm.

October 31: **Open staff briefing** by CBO & GAO on the budget and program constraints in the DoD Budget, NATO Expansion Costs, the affordability of NATO expansion in a constrained budget; Senior Researchers from CBO and GAO; Dirksen 608; 10:30 am.

November 4: **Committee Hearing- NATO Costs:** DoD budget constraints, additional NATO expansion costs and their affordability in this constrained budget. Witnesses include Cindy Williams Director of CBO's National Security Division and Butch Hinton, Assistant Controller General of GAO's National Security and International Affairs Division ("NSIAD"). Dirksen 608; 10:00 am.